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FOREIGN EXCHANGE CRISIS AND THE PLAN

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Foreword

The National Council of Applied Economic Research intends to bring out each month a monograph in the series 'Occasional Papers'. Papers included in the series will consist of contributions of Staff members on current economic issues, preliminary reports on investigations in progress in the Council, and also reports on findings which emerge as bye-products of broader research assignments. The series will be the precursor of a regular journal which the Council proposes to establish in the latter half of 1958.

The first of the 'Occasional Papers' deals with the foreign exchange crisis and its bearing on the Second Plan. This paper was prepared by Dr. Ashok Mitra in collaboration with the Director-General. It is hoped that some of the points raised in the paper will be of interest to planners and administrators as well as to the general public.

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Director-General

1. *Factors behind the Crisis*

1.1 With the recent decision to allow the Reserve Bank of India to reduce, under the emergency clause provided in the Reserve Bank of India (Amendment) Act, 1956, its minimum holding of foreign assets to Rs. 300 crores, India's ways and means crisis can be said to have entered its acutest phase. The decision was merely a recognition of the realities of the situation, since the assets had already been eroded to below the level of Rs. 400 crores—the stipulated minimum in ordinary circumstances—by the beginning of August.

1.2 In the seventeen months since the commencement of the Second Plan period, India has drawn down foreign exchange to the extent of Rs. 460 crores. The rate of depletion, which was of the order of Rs. 15 to 20 crores per month during 1956,[1] has in fact soared up to an average of between Rs. 35 and Rs. 40 crores in the recent months. (See Table I.)

TABLE I

MONTHLY VARIATIONS IN THE FOREIGN ASSETS OF THE RESERVE BANK OF INDIA

(Rs. Crores)

	1956	1957
January	— 1.06	— 19.30
February	+ 0.70	— 20.31*
March	+ 11.34	— 24.18*
April	— 20.49	— 21.92
May	— 13.51	— 49.84
June	— 30.62	— 36.25*
July	— 22.09	— 33.13
August	— 27.82	— 40.35†
September	— 16.55	—
October	— 32.81	—
November	— 45.72	—
December	— 6.62	—
MONTHLY AVERAGE	— 17.10	— 30.66

* Exclusive of I.M.F. receipts.

† Inclusive of the loan of Rs. 10 crores drawn by the Government of Burma.

Source: Reserve Bank of India.

[1] As the table shows, the depletion started in the second quarter of 1957.

It is now well over six months since attention was first drawn to the seriousness of the situation. The fact that the drain could not yet be halted, or, for the matter, slowed down, merely emphasises the hazards of an overwhelmingly free-enterprise economy where the instruments of economy policy in the hands of the State fail to become effective in the immediately short period, and where State policy has to work through an elongated process of compromises and balances.

1.3 In the First Plan, it had been proposed to draw down foreign balances of the Reserve Bank of India up to the order of Rs. 290 crores over the five years. In actuality, barely Rs. 120 crores worth of assets were drawn upon. In contrast, it was envisaged that during the Second Plan period, while the overall deficit in external accounts would be in the neighbourhood of Rs. 1,100 crores, the net draft on foreign balances of the Reserve Bank would only amount to Rs. 200 crores. The credit from the International Monetary Fund notwithstanding, the scaling down of foreign assets even during the first year of the Plan has exceeded Rs. 200 crores, thus emphasising another aspect of the yawning distance between resolve and realisation.

TABLE II

INDIA'S ANTICIPATED BALANCE OF PAYMENTS ON CURRENT ACCOUNT, 1956-57 to 1960-61

(Rs. Crores)

	1956-57	1957-58	1958-59	1959-60	1960-61	*Average for 5 Years*	*Total of 5 Years*
1. Exports (f.o.b.)	573	583	592	602	615	593	2,965
2. Imports (c.i.f.)	783	886	990	895	786	868	4,340
3. Trade balance (1—2)	—210	—303	—398	—293	—171	—275	—1,375
4. Invisibles (excluding official donations)	+62	+55	+51	+46	+41	+51	+255
5. Total current account balance (3+4)	—148	—248	—347	—147	—130	—224	—1,120

Source: *Second Five Year Plan.*

1.4 What are the major factors which have, over the past year, led astray, in such a catastrophic manner, all the calculations which went into the foreign exchange budgeting of the Plan? From Table II it will be seen that the original Plan expectations were that merchandise imports would be of the order of Rs. 750-800 crores in the first year of the Plan, rising steadily up to Rs. 900-1,000 crores during the second and third years, and then receding to a little below Rs. 800 crores in the final year, thus making a total of around Rs. 4,300 crores over the five years. On the other hand, earnings from exports were presumed to move in the range of Rs. 600 crores during each year of the Plan, making up a total of about Rs. 3,000 crores for the entire period. Credit was also taken for a surplus on invisibles of the order of Rs. 250 crores so that, all told, it was thought that the imbalance in foreign exchange resources over the total Plan period would be about Rs. 1,100 crores.

1.5 This prognosis has gone awry right at the beginning. Instead of a volume of imports amounting to about Rs. 750 crores during the first year of the Plan, total imports in 1956-57 have been almost Rs. 350 crores higher, while exports have not progressed appreciably beyond the mark of Rs. 600 crores. An idea of the serious debacle in the balance of pay-

TABLE III

INDIA'S OVERALL BALANCE OF PAYMENTS

(Rs. Crores)

	1956-57	1955-56	1954-55
1. Imports c.i.f.			
Private	795.9	611.7	523.9
Government	280.6	138.9	159.9
Total	1,076.5	750.6	683.8
2. Exports f.o.b.	637.0	641.1	596.6
3. Trade balance	—439.5	—109.5	—87.2
4. Official donations	39.8	42.0	15.8
5. Other invisibles (net)	107.2	84.4	77.4
6. Current account (net)	—292.5	16.9	6.0
7. Errors & omissions	—4.6	—5.3	—12.1
8. Official loans	56.4	6.5	0.6
9. Other capital transactions (net)	21.7	—3.1	—11.7
10. Movement in foreign exchange assets	—219.0	+15.0	—17.2

Source: Reserve Bank of India.

ments position can be had from Table III, which compares the country's external accounts in the past financial year with those for 1954-55 and 1955-56. It will be seen that the merchandise deficit for 1956-57 is very large compared to 1955-56 and 1954-55, namely, Rs. 440 crores as against Rs. 110 crores and Rs. 85 crores respectively. Imports during 1956-57, at Rs. 1,077 crores, were Rs. 326 crores higher than in 1955-56 whereas exports were lower by Rs. 4 crores. The trade deficit of Rs. 440 crores was brought down to a deficit on current account of Rs. 293 crores by net invisible receipts of Rs. 107 crores and another Rs. 40 crores from official donations. In the capital account, there has been an inflow to the extent of Rs. 78 crores, which includes the short-term loan from the International Monetary Fund amounting to Rs. 61 crores.[1] If one excludes this loan, the total depletion of foreign assets will in fact be nearly Rs. 280 crores instead of Rs. 219 crores as shown in the table.

1.6 Broadly, it can be suggested that the current crisis is the direct outcome of the co-existence of the export structure of an as yet semi-subsistence economy and the changing structure of imports of a rapidly developing economy. Of the rise in imports in 1956-57 over 1955-56, amounting to Rs. 325 crores, about Rs. 145 crores is on account of the increased volume of imports of capital goods, including machinery and vehicles, iron and steel and other metals. At the same time, as Table IV will bear out, the balance of trade position has also been heavily toppled by the unprecedented increase in the import of foodgrains, other types of consumer goods, and of unprocessed and semi-processed intermediate goods for use in the manufacture of consumption articles.

1.7 A hump in the volume of imports was expected by the planners only during the second and third years of the Plan, on account of the planned progressive rise in the volume of investment—by Rs. 120 crores and Rs. 100 crores respectively—during these two years. In the foreign exchange proposals of the Plan, the total quantum of imports under the category of capital goods was estimated in the region of Rs. 2,150 crores, or at an average of Rs. 430 crores per annum. This represented an annual stepping up of about Rs. 200 crores over the import of capital goods which had taken place during 1951-56. The broad intention was that the requirements of consumption goods from foreign countries over the Plan period should be met by current imports and the estimated deficit of Rs. 1,100 crores in external accounts would thus be almost entirely on account of the increased rate of imports of capital goods. As it is, the import of

[1] A further credit, of the order of Rs. 34.5 crores, from the Fund has been drawn upon in June.

TABLE IV

INDIA'S IMPORTS OF PRINCIPAL COMMODITIES

(Rs. Crores)

	1955-56	1956-57	*Expected 2nd Plan Average*	*Increase (+) or Decrease (—) of (2) over (3)*
	(1)	(2)	(3)	(4)
1. Machinery, vehicles, iron and steel and other metals	299	442	430	+12
2. Foodgrains	29	102	48	+54
3. Sugar	—	—	7	—7
4. Oils	67	80	82	—2
5. Chemicals, drugs & medicines	34	43	32	+11
6. Dyes & colours	16	15	17	—2
7. Paper, pasteboard and stationery	15	15	11	+4
8. Cutlery and hardware, electrical goods and apparatus	41	53	29	+24
9. Raw cotton	58	53	54	—1
10. Raw jute	18	8	18	—10
11. Others	174	266	140	+126
TOTAL	751	1,077	868	+209

Source: Reserve Bank of India.

capital goods during the first year of the Plan has amounted to Rs. 442 crores, which is even higher than the annual average envisaged for the Plan period. Besides, even for all the consumption goods categories such as foodgrains, drugs and medicines, paper and stationery, electrical goods and apparatus, cutlery and hardware, etc., the import figures for 1956-57 are significantly higher than the anticipated annual average for the Plan period. The category of 'Others' in Table IV, consisting, among others, of a whole range of consumer and intermediate goods, shows an abnormal leap of Rs. 126 crores over the Plan average.[1] This is to be noted against the fact that, although the average annual volume of capital goods for the Plan period was assumed at Rs. 430 crores, during the first year this volume was not expected to go beyond Rs. 250 crores. Similar anticipations were also applied regarding the scale and extent of imports of

[1] In a speech in Parliament on August 30, the Finance Minister stated that a major part of the increase in imports under this has been on Government account. The precise nature of these Government imports has not been explained.

the other commodities. The general idea was to arrange for credit in the subsequent years to cope with the gradually ascending volume of capital goods imports and of other imports. It is, therefore, not surprising that the sudden spurt in imports over the past eighteen months should have taken the planners so completely unawares.

1.8 The several individual elements which make up the import crisis can be mentioned in brief. The increase in imports has occurred on both government and private accounts, although, as the following table will show, the rate of increase in imports on Government account has been much sharper.[1]

TABLE V

IMPORTS c.i.f.

(Rs. Crores)

	April-June 1956	*July-Sept.* 1956	*Oct.-Dec.* 1956	*Jan.-March* 1957
Private	196.1	195.5	209.6	194.7
Government	34.1	51.1	84.4	111.0

Source: Reserve Bank of India.

The level of Government imports during the quarter July to September 1956 was about 50 per cent higher than in the previous quarter; in the quarter October to December 1956 it was almost 70 per cent still higher. In the final quarter of 1956-57 another 30 per cent increase was registered in Government imports. In contrast, but for the slight rise during October-December, private imports on the whole remained stable from quarter to quarter. While payments for private imports rose from Rs. 612 crores in 1955-56 to Rs. 796 crores in 1956-57—an increase of Rs. 184 crores or 30 per cent—Government imports went up by Rs. 142 crores, from Rs. 139 crores to Rs. 281 crores, an increase of slightly over 100 per cent.

1.9 Detailed breakdown of Government imports is not yet available but roughly it would appear that out of the increase of Rs. 142 crores, food imports account for Rs. 74 crores. Expenditure on defence, railway equipment and capital equipment for other Government enterprises will, in the main, explain the other increases in import outlays. The largest

[1] Of course, since many imports for Government purposes flow in on private account, the comparison made here will bear refinement.

increases in private imports have been on account of machinery of all kinds (Rs. 43 crores) and iron and steel (Rs. 61 crores). These two together with the item 'other metals' were instrumental for two-thirds of the total increase in imports. Other commodity groups like vehicles, oils, chemicals, cutlery and hardware, and electrical goods account for an increase of Rs. 38 crores.

TABLE VI

INDIA'S PRINCIPAL IMPORTS ON PRIVATE ACCOUNT c.i.f.

(Rs. Crores)

	1956-57	1955-56
Mineral oils	77	65*
Cotton, raw and waste	48	58
Jute, raw and waste	8	18
Chemicals	29	22
Drugs and medicines	14	12
Dyes and colours	15	16
Cutlery, hardware etc.	28	23
Electrical goods	25	19
Machinery of all kinds	151	108
Metals, iron and steel, and manufactures thereof	119	58
Metals other than iron and steel, and manufactures thereof	37	24
Vehicles	44	34
Locomotives and spares	2	4
Ships and parts, and aircrafts	14	7
TOTAL	796	612

* Includes vegetable and animal.
Source: Reserve Bank of India.

1.10 The following factors will probably cover the major reasons for the sharp increase in both Government and private imports :

(a) The bulk of the increase in Government imports, as seen above, is on account of heavy import of foodgrains necessitated by the rising trend of food prices since the beginning of 1956. The food harvests of 1953-54 and 1954-55 provided the setting for the assessment of the agricultural situation in the country at the time of the formulation of the Second Plan. It was natural at that juncture

to assume that internal food production would provide ample cushion against any significant scarcity or price rise during the Second Plan period, and therefore, imports of food planned for the five years of the Plan were only 6 million tons as against an annual import of 3 million tons planned for in the First Plan. Events over the past eighteen months have completely falsified this optimistic picture: Government imports on account of food increased steeply from 4 lakh tons in 1955-56 to more than 2 million tons in 1956-57.

(b) Secondly, reference has to be made to the very important consideration that over recent months the estimates of foreign exchange requirements of many projects under the Plan have been revised upwards, and, in some cases, without sufficient publicity. This, for example, seems to be true about the outlay on Railways. Further, inadequate allowance was made originally for the components of a number of Plan projects which had to be corrected subsequently. Thus, the cost calculations for the three steel plants in the public sector did not initially include the outlay on townships. Subsequent inclusion of the latter meant additional demand for imports, including iron and steel, cement, cables, etc. The overall foreign exchange component of the Plan has therefore gone up and part of the effect of this upward revision is already being reflected in the figures for imports.

(c) A third contributing factor is the increase in the cost of imports since the formulation of the Plan. Besides the Suez crisis, which has pushed up freight rates by nearly 15 per cent, there has also been of late increase in the prices of iron and steel as well as of machinery of a large number of varieties.[1]

(d) Next, with the substantial increase in defence appropriations, imports for defence purposes must also have gone up. The intensification of the cold war and the deteriorating relations between India and Pakistan have thus led to an aggravation of the country's exchange crisis.

(e) Another major explanatory factor would appear to be lags and leads in programmes of investment in both the private and public sectors. Thus, some imports which ought to have taken place during the First Plan period but did not mature on account of the given inertia or delay in the administrative apparatus, or abeyance

[1] One estimate suggests an increase by almost 33 per cent in the import price of certain categories of capital goods over the past two years.

of decision on the part of private entrepreneurs, have spilled over and have occurred during the past one year. This crisis has been further made acute by a number of leads in import programming. A number of Ministries, anxious that some of their projects which involved a certain drain on foreign exchange should not be affected by the general shortage in exchange availability which could be anticipated for the later years of the Plan, seem to have made early arrangements during 1956-57 to import the necessary capital goods. Similarly, in the private sector, again in anticipation of a possible crisis in foreign exchange and consequent adoption of restrictive measures, there has been a rush to make arrangements to import as much of goods and materials as was possible. These developments present almost a perfect illustration of the theoretical notion of the elasticity of expectations being greater than unity ; precisely because a foreign exchange crisis was expected, such a crisis has arisen. In a number of instances, arrangements were made to pay out foreign exchange for imports which would mature only with a lag of a couple of years.

(f) Full advantage was taken by the private sector of the liberal import licensing policy which was being pursued by Government since 1955. Partly on account of the buoyant conditions in the economy, there was a general relaxation at about that time in import policy and licences were granted for a wide group of commodities including consumer goods and intermediate goods which can be put to use to produce consumer goods. In the absence of a machinery for adequate screening, it is quite possible that a large proportion of the imported iron and steel, for example, have gone into construction ; some imports of machinery are likely to be in the nature of airconditioning and refrigerating plants. The prosperity set in motion by the general boom conditions in the economy would also explain the ascending levels of imports of woollen textiles, rayon, watches, electrical appliances, etc.

(g) Finally, a certain proportion of the enlarged imports must be due to auxiliary and ancillary investment taking place on the base of the economy for which no proper allowance was made in the Plan. Where Plan operations, especially in the industrial sector, are expanding at such a fast pace, it is only normal that smaller manufacturing and forging units will also be enlarging their capacity. The sum total of such individual expansions on the aggregate import demand for machinery and material is likely to be considerable.

1.11 Against the background of this extremely serious ways and means position, a number of other considerations have now to be taken into account. Even internally the situation has been far from stable during the past two years. Although the price level of manufactures has risen only slightly over this period, the price indices of semi-manufactures, industrial raw materials as also of food articles have risen steeply so much so that the overall index of wholesale prices in the country has moved up by nearly 25 per cent between August, 1955 and August, 1957. The price indices of cereals as a whole, and of rice and wheat individually, are in the neighbourhood of 150 compared to the situation two years ago. The rise in the price index of industrial raw materials in the corresponding period is also around 25 per cent. The pressure on food prices is continuing and the regional shortages which have become evident over wide areas in the last few months do give ground for anxiety. Despite the several revolutionary features incorporated in the current year's budget, it cannot be too confidently claimed that the widespread excises and tariff imposts levied by the Finance Minister would not lead to certain concerted pressures for wage and salary increases. There will then be a real danger of a further spurt in domestic prices. Besides, even as the budget stands at present, deficit financing to the extent of Rs. 275 crores is planned over the current fiscal year. In case things do not look up soon, there is a distinct hazard that injection of this amount of credit would considerably accentuate the internal and external pressures with consequent further adverse effects on the balance of payments position. While a partial relief from inflationary pressures would be obtainable if a certain spilling-over of consumer demand is allowed in the form of imports, on the other hand, such a spill might actually drain up the last remnants of the country's foreign resources. As far as one can see ahead, if the present rate of drain continues, the foreign reserves of the Reserve Bank of India will dip below Rs. 300 crores by December, 1957, so that scrapping of the statutory minimum cannot any longer be postponed. Not only that ; in the absence of any substantial foreign accommodation, the current rate of expenditure would imply that all the past savings of the country would be eaten up by August, 1958.

2. *Measures to Raise Exchange Availability*

2.1 The central problem in the country at the moment is to salvage as much of the Plan as is practicable given the desperate foreign exchange situation. A number of issues should be borne in mind in this connection.

The size of the Plan, as it was finally decided, already represents a certain pruning of ambitions on the part of, and compromise between competing claims of, the Union Government, the States and the private sector. The original targets and aspirations broached by these several interests have already been scaled down to varying extents in arriving at the agreed size of developmental outlay. Moreover, enthusiasm has been sought to be generated amongst the general public on the basis of the individual projects included in the Plan, many of which are intimately related to either local needs or strong emotional considerations. It may also be assumed that there is, even if partially, a certain integral relationship between the size of the Plan, the sector-wise distribution of total outlay and the targets of increases in employment and national income which have been widely propagated as the basic postulates of the Plan. The programme of widening and deepening the heavy capital base of the country too is closely linked with the overall size and the pattern of allocation. The proposed outlay for basic investment goods has an organic significance from the point of view of the long-term growth potential of the economy.[1] In such circumstances, any abrupt and sudden decision to cut down on the aggregate size of the Plan might generate profound disappointment, disillusionment and a feeling of frustration among wide sections of the community which in itself could endanger the future progress of development planning in the country. Thus every effort ought to be made to sustain, to the extent it is possible, the original size of the Plan and to resist attempts to whittle down the physical targets attached to it. This implies that in any review of the situation, initial attempts should be directed to examine the possibilities of obtaining additional foreign exchange up to the limit necessary to maintain the Plan's original allocations.

2.2 There are two broad ways which might be followed to raise the supply of foreign exchange :

(a) Efforts may be made to maintain from now on a continuously favourable merchandise balance of trade, of an appreciable magnitude, during the remaining years of the Plan ; this implies that the volume of current imports should be reduced to a minimum and, secondly, that current exports have to be increased in substantial proportions.

(b) Alternative and supplementary possibilities of increasing the supply

[1] The Plan involves an investment outlay in the public and private sectors considered together of less than Rs. 200 per capita; this by itself cannot be regarded as an immoderate magnitude.

of long-term and medium-term credit through agreements of different types with various countries and international agencies may be explored.

2.3 As regards merchandise imports, the objective should be to try to cut down all imports for consumption purposes and also to reduce the imports of intermediate goods which are intended to be processed into consumer goods internally. Where licences have already been issued for such imports but have not yet been utilised, freezing of such licences need not be considered as too harsh a measure. Despite the several—and severe—restrictive measures imposed on imports since January last, one still notices considerable reluctance in official circles against any move to rescind or curtail outstanding unutilized licences which were issued during 1956. Many of these licences have a time-period of utilization of two years, and their capacity to do further harm to the external viability of the economy remains immense.[1] The usual argument against any interference with outstanding licences is danger of possible dislocation of trade and upsetting of economic, financial and credit operations already committed or in process. One rather moderate suggestion can, however, still be offered. The outstanding licences may be temporarily recalled. A scrutiny can then be made about the nature of the import licences and the degree of commitments entered in respect of them ; it would be surprising if some weeding out of unnecessary and postponable imports is not thereby made possible.

2.4 In case effort is successful in curbing the supply of intermediate goods for consumer industries, there will also be a secondary advantage accruing, since imports of capital goods which are essentially for the manufacture of consumer articles as well as related spare parts need not also be imported any longer. One can presume that quite a bit of saving can be accounted for under the catch-all heads such as cutlery and hardware, electrical appliances, etc., which conceal a whole group of consumer goods including such items as wrist watches, cinematographic films, radios, refrigerators, kitchenware, household gadgets, mechanical toys, etc.[2] The total volume of imports anticipated under these categories in the foreign exchange budget of the Plan is of the order of Rs. 270 crores over the five years. Given the present emergency, the Government should have no hesitation to decide—

[1] Different estimates place the total value, as of date, of unutilized licences at anywhere between Rs. 400 crores and Rs. 800 crores.

[2] It is quite possible that a part of iron and steel imported goes into housing or furniture, a part of machinery may include items like airconditioning equipment or slot-machine juke box.

at least for a period of eighteen months or two years—on a drastic reduction of such imports to the extent of even 50 per cent. It is true that the consequent shortage will lead to a certain rise in prices for these articles. But these price rises will, in any case, be of the type of once-over increases and will, therefore, not lead to any spiral effect. Besides, the impact of such price rises will broadly be felt only by the upper income brackets, and there can be little ground, from the point of view of equity, to object to a cut in such imports.

2.5 One can also look critically at the figure of Rs. 35 crores which is suggested to be the outlay for the import of sugar during the five-year period of the Plan. Considered in the light of the current volume of production of sugar in the country, there can be little justification for the import of large quantities of sugar. The Government should, one feels, come out with an announcement banning further imports of sugar initially for the next two years and thus conserve foreign exchange of the order of almost Rs. 15 to 16 crores. It is also time that thought is given to the proposal that each year a certain percentage of the overall sugar output in the country should be earmarked for exports. Admittedly, this will check the current trend of rise in sugar consumption over wide sections of the community. But this ought to be welcome. Since sugar cannot in any case be considered an essential food category, this curb in consumption is unlikely to result in any undue hardship. To an extent the reduction in sugar availability will surely be made up by an increase in the intake of gur, molasses and other types of inferior varieties. The only danger is that speculators may seek to take advantage of the sudden reduction in the sugar quota meant for domestic consumption. But the Government can, through selected control and punitive measures, put a check on such activities.

2.6 A wider point of view may be tentatively suggested here. It is doubtful whether the excises levied in the current year's budget on a number of consumer articles will by themselves be able to curtail consumption and divert part of the total output for export purposes. Purely fiscal measures are unlikely to be sufficient instruments for export promotion. One can suggest that the proceeds of these excises could perhaps be used to accord subsidies in order to encourage export trade. These subsidies may assume various forms including grant of short-period credits, initiation of export risk insurance scheme,[1] special rail freight rates, shipping freight rebates, etc. Where exports pick up as a result of such subsidisation, there will be automatically a fall in the level of internal consumption. At the

[1] Such a scheme has recently been floated.

TABLE VII

ESTIMATED VALUE OF IMPORTS REQUIRED DURING THE SECOND PLAN PERIOD

(Rs. Crores)

		1954	1955	*Last Year of Plan* 1960-61	*Annual Average Second Plan*	*Five Year Total* 1956-61
1	Machinery and vehicles	121	159	250	300	1,500
2	Iron and steel	27	50	60	86	430
3	Other metals	24	25	40	44	220
4	Grains, pulses and flour	49	35	40	48	240
5.	Sugar	31	20	7	7	35
6	Oils	94	63	90	82	410
7	Chemicals, drugs and medicines	31	34	33	32	160
8	Dyes and colours	19	18	15	17	85
9	Paper, paste-board and stationery	13	14	10	11	55
10	Cutlery, hardware, electrical goods and apparatus	28	36	29	29	270
11.	Raw cotton	58	54	54	54	145
12	Others	113	130	140	140	700
	TOTAL	620	655	786	868	4,340

Source *Second Five Year Plan*

same time, the gain in foreign exchange through the expansion of exports will be a multiple of the amount spent on subsidies and similar aids to exports.

2.7 Other items on which it should be possible to ensure some saving in foreign exchange will include raw jute, oils, paste-board and stationery, and a whole range of miscellaneous items. It is difficult to make out a case for continuing imports of raw jute in the country in the light of the agricultural programme of the Plan. While it is proposed that domestic production of raw jute will go up by almost 45 per cent between 1955-56, the export of jute yarn and manufactures is assumed to remain at the level of 1954-55 (see Table VII). A substantial increase in the internal demand for jute products can, of course, be anticipated for the next few years ; yet this is surely a situation where the net foreign exchange earning capacity

of a particular line of enterprise ought to be weighed carefully.

2.8 There can also be little doubt that a substantial saving can be made in the import programme under the miscellaneous items which are supposed to cost Rs. 700 crores over the period of the Plan. If Government adopts a policy of stricter vigilance and scrutiny, a saving of over Rs. 200 crores should be possible under these heads in the next four years. A special point to be stressed and investigated is that in so far as capital goods have flowed in earlier than in the original Plan phasing, the capacity of a large group of industries should also be expanded earlier than previously expected. That is to say, categories of import substitution which would, in the normal circumstances, have taken place in the last stages of the present Plan or only in the Third Plan period ought now to be operative earlier, with consequent additional savings of imports.

2.9 In the field of export promotion, definite suggestions are somewhat more difficult since the possibility of exports hinges, to a very large degree. on the movement of international prices and the fluctuating level of demand in foreign countries. But it is disturbing to note that in the foreign exchange budget published with the Second Five Year Plan, the level of exports has been assumed to stay pegged during 1956-61 at the same level as obtained during the years 1954 and 1955. This reflects a static frame of mind which is deplorable, especially since substantial sums of money are at the same time proposed to be spent over the five years to boost up our export promotion activities. There is little reason why the exports under some categories of engineering goods,[1] of some non-essential oils, hides and skins, tea, coffee, tobacco and tobacco products, jute and jute products, footwear and cotton manufactures cannot be pushed up in the next few years. One notices with some concern that the export figures under almost each of these items have been assumed in the Plan estimates to stay invariant at the levels of 1954 and 1955. One would think that a broad-based export drive in our staple goods and a selective support to our newer exports of manufactures, semi-manufactures and processed raw materials ought to yield at least another Rs. 200 crores beyond what has been taken credit for in the Plan. Once the lines have been decided upon, such an expansion in the volume of exports can by no means be considered an ambitious target, since this would be only an increase of 6 to 7 per cent over the country's current level of exports.

2.10 Wherever called for, reduction of exports duties and other types of direct encouragement to export may be experimented with. The loss in revenue from such gestures is likely to be overwhelmingly compensated

[1] e.g., cycles, aluminium wares, sewing machines, electrical goods, diesel engines, etc.

TABLE VIII

ESTIMATED EARNINGS FROM MAJOR EXPORTS OVER THE SECOND PLAN PERIOD AS COMPARED TO 1954 AND 1955

(Rs. Crores)

	1954	1955	*Last Year of Plan* 1960-61	*Annual Average Second Plan*	*Five Year Total* 1956-61
1. Tea	131	112	133	127	635
2. Jute yarn and manufactures	122	126	118	122	610
3. Cotton yarn and manufactures	72	63	84	75	375
4. Oils (excluding mineral oils)	11	39	24	22	110
5. Tobacco	12	11	17	15	75
6. Hides, skins and leather	29	27	28	28	140
7. Cotton, raw and waste	19	35	22	22	110
8. Metallic ore and scrap iron and steel	23	20	27	23	115
9. Coal and coke	6	4	3	5	25
10. Cutlery, hardware, vehicles, electric goods and apparatus, and machinery	3	4	4	4	20
11. Chemicals, drugs and medicines	5	4	5	5	25
12. Others	130	151	150	145	725
TOTAL	563	596	615	593	2,965

Source: *Second Five Year Plan.*

where exports really catch on. In fact, at the expense of a little austerity at home, it would look to be fairly feasible to earn around Rs. 50 to Rs. 60 crores additionally each year, only if export restrictions on some of the staple commodities like vegetable oils, oilcakes, etc., are relaxed.

2.11 The possibilities of augmenting the supply of foreign exchange from external sources including international agencies, foreign governments, and private foreign investors may now be briefly mentioned. These would include possibilities of soliciting additional credit from the International Monetary Fund,[1] grants from the International Bank for specific projects, further accommodation from multi-national aid programmes like the Colombo Plan, individual agreements with foreign governments regarding long-

[1] This is of course subject to serious limits.

and medium-term loans and grants, bilateral arrangements with foreign countries for promoting trade in specific commodities including barter, short-term accommodation by friendly countries and, lastly, deferred payments and medium-term credit arrangements either with private foreign investors or even with foreign government organizations. A sufficient volume of discussion has already taken place in the country about these approaches, and only a few specific remarks will be offered here.

2.12 The question of requesting revolving credit from countries of friendly persuasion may be explored in some greater detail and with greater assiduity. Such credit, for example, was offered by China to Egypt in the form of Swiss francs during last year's crisis. As suggested by the Finance Minister, the crucial period for India will be the next two years, and the situation is likely to look up after that period. If appropriately approached, quite a number of countries may be receptive to the idea of according India accommodation in foreign currency for these two years.

2.13 Assistance for specific projects, as in the case of loans from agencies such as the International Bank, will of course be welcome. But, generally, in entering into agreements with foreign governments and private investors, the accent should be to arrange for accommodations which are not tied in with particular projects, since such arrangements generally reduce the flexibility of the operational programming of the Plan. Where a new situation arises and some rapid re-alignment of the Plan programme is called for because of emergency circumstances, tying-in types of agreements assume limited usefulness, and foreign exchange accruing through such arrangements cannot be switched over to alternate directions. Another type of tying-in is demonstrated by foodgrain loan under P.L. 480 from the United States ; such loan is contingent upon our maintaining a certain flow of normal imports from abroad. Such provisions in the loan agreements ought to be avoided, or, at least in very difficult periods when conservation of each bit of foreign exchange assumes the highest importance, be held in abeyance.

2.14 A point may be stressed here regarding deferred credit arrangements. We need not always shy away from long- and medium-term deferred credit arrangements which involve payment of high interest charges. If agreements can be entered into to spread out these interest charges evenly, the burden in the immediate period is unlikely to be very high, and it can be hoped that the country will be able to acquire sufficient wherewithal after a while to be able to honour these obligations.

2.15 Finally, parallel to arrangements involving deferred credit, the Government may solicit from foreign investors within the country their

attitude to a proposal for deferred remittances for a temporary period. There can be no question of freezing investment income of foreigners being remitted abroad. But it is possible that, given a certain amount of goodwill, foreign concerns may view favourably suggestion to curtail the quantum of remittances for the next two years, and thus contribute toward the Government's efforts to tide over the exchange crisis.

3. *Implications of Rephasing the Plan*

3.1 The discussions in the above Section have related to an appraisal of the suggested measures to increase the availability of foreign exchange which might in turn be utilised for maintaining the original size of the Plan. But it will be realistic to examine simultaneously the ways in which the core of the Plan could be saved, in case in the final analysis it became essential to prune the Plan[1] because of the failure to obtain foreign exchange to the extent necessary.[2] If the shortfall in external resources cannot be covered, the aggregate size of the Plan will usually be reduced by a certain multiple of the amount by which available foreign exchange lags behind the overall requirements. This will be so since the scarcity of foreign exchange will mean that a particular project will have to be discarded, postponed, or scaled down, thus leading to a corresponding reduction in domestic expenditure as well. A revision of the Plan ought also to take into consideration certain broad ideas about how domestic resources, released in such manner, could be deployed in alternative directions despite the failure of foreign exchange. Moreover, since a drying up of foreign resources will automatically mean the curtailment of the Plan, it is important that the principles of such curtailment are made clear as early as possible and firmly adhered to rather than that a stampede ensues between competing targets and sectors. In the paragraphs below an attempt will be made to present a frame which would facilitate revisions in the body of the Plan in such a way as would affect in the least the broad objectives initially set.

3.2 The programme of the Plan is spread over five years and among various sectors, and it can be expected that for each year an annual plan

[1] The Finance Minister has already hinted about this possibility.

[2] In certain quarters it will be considered defeatism even to enter into a discussion on the reduction of the size of the Plan. But emotional involvement here will be harmful; it is important that decisions to cut and rearrange the Plan outlays, if taken, are informed by adequate economic considerations rather than be the result of haphazard administrative cutbacks.

will be drawn up either explicitly or implicitly.[1] In such annual plans too, a similar spread of the various projects is called for over different sectors and as between different States. There should in fact be an interlink between the annual plans in the sense that the programmes and projects included in the earlier years ought logically to lead to those planned for implementation in the later years. This stratagem of phasing should be considered as one of the basic postulates in planning. Besides, for each year, there has to be proper integration between the sectoral programmes and the programmes of the different regions.

3.3 Parallel to these considerations are the problems of finance and foreign exchange. As the review in the previous sections would have amply demonstrated, it is not enough if these two categories are thought to be available in the aggregate over the five years. The availability has also to be spread in line with the demands made by the annual plans. Where this matching is absent from year to year between the demand for and supply of finance and foreign exchange, distortions and weaknesses are inevitable in the fabric of the Plan. In case finance and foreign exchange become available in the early stages, they can of course be held over. But where developments are the other way round, the programmes in the Plan cannot be averted from going astray.

3.4 Given these postulates, what measures can be adopted to increase the flexibility of the Plan ? To begin with, it is necessary that the programme of the Plan be sifted in such a manner that three different types of projects are distinguished :

(a) Projects which constitute the basic minimum of the Plan and those which have a rigid production function. The latter projects will usually have invariant finance and foreign exchange requirements so that, whatever be the other revisions entered in the financial and foreign exchange budgets of the Plan, the original outlays on these projects will have to be retained.

(b) A second group of projects which are also considered essential to achieve the major objectives of the Plan but where one can choose between several alternative technologies. This implies that these projects can be implemented even if, in an emergency, finances are not available to the extent originally envisaged and foreign exchanges are not within reach.

[1] It is not claimed here that such features inhere in the Second Plan; the problem is merely being analytically stated.

(c) A third list of projects which can be put on and off the Plan depending on the resources position at a particular moment of time.

It may be that a certain project may be composed of all these separate elements (a), (b) and (c). That is to say, it may be considered essential to implement one part of the project while the remainder can be implemented as and when the resources picture improves. Or, it may be that a part of the project will have a rigid foreign exchange component while for the other part it is possible to decide between alternative technologies which do not necessarily exercise a strain on the foreign exchange position. Another point needs to be stated. Whatever the size of the Plan, that is, whether the available resources are currently able to accommodate projects of only type (a) or of types (a) and (b), or of all the three types, in each case, the question of inter-relation has to be kept in mind. Thus, to be able to face all eventualities, three series of annual plans and inter-sector flows ought to be drawn up or shown cognisance of : (i) Alternative (a), (ii) Alternative (a) plus (b), and finally, (iii) Alternative (a) plus (b) plus (c). Besides, depending upon the technological possibilities in projects included under (b), any number of variations of Alternative (a) plus (b) are possible. This would also lead to the consequent task of calculating alternative plans and inter-relations for each year and as between different years.

3.5 It would appear as essential that an analysis is made, within the shortest possible time, of all projects included in the Plan according to categories (a), (b) and (c). This will not, of course, be a very easy task since, apart from everything else, there will always be elements of difference of opinion in isolating projects to be regarded as coming under (a). This will ultimately be a political decision and the final prerogative in this respect will lie with the National Development Council. Moreover, even in the case of individual projects, as already hinted, there may be present together elements of (a), (b) as well as (c). Still, even a broad classification of the various projects ought to be tried. It may be that for a number of projects the contours between the three categories will only be roughly drawn, but by and large such a classification should be able to suggest a certain order of priorities regarding foreign exchange allocation as between various projects.

3.6 It will also be necessary to analyse the foreign exchange already spent during the past year and to classify the imports made against this expenditure according to categories (a), (b) and (c). It is true that a large part of the foreign exchange spent away in the past seventeen months will have been on non-Plan outlays. An analysis of the residual imports will

still be of significance. For one thing, as suggested in Section 2, in so far as it is true that a big proportion of the imports during the last one year were of the anticipatory and precautionary type, the burden of Plan imports during the current and subsequent years should be correspondingly less. In the second place, even in the case of non-Plan imports, it is helpful to have the different types of recent imports properly classified so that it becomes known what types of consumer goods or other non-essential items to cut out from or ration in the import programming for the next two years.

3.7 At the other end, it will be necessary to work out the relative contribution, even if in broad terms, of the projects included under (a), (b) and (c) respectively to national income each year and over the five years of the Plan. Estimation of such potential contributions to national income will help the planners to calculate the relative significance of the different groups of projects and will also facilitate the assessment of the effects of any curtailment in the specific targets on the overall targets of the Plan.

3.8 The strategy, in the context of financial and foreign exchange stringency, should be to try to reduce the level of costs in the group of projects (b) so as to be able to devote as much as possible to (c). The devices which immediately come to mind in this connection are multi-shift operations, switch-over from elongated (therefore capital-intensive and expensive, in the instantaneous sense) processes of production to quick-yielding projects, the substitution of cheap and semi-skilled labour, as far as possible, for more sophisticated and better-skilled labour, the climbing down from conspicuous and flamboyant styles of construction to simpler architecture, etc. Secondly, this cost substitution has to be accompanied by concentration of outlays in sectors and zones where the growth potential of national income will be the highest in the short period. There are of course obvious limits beyond which such a policy of concentration cannot be carried. For instance, certain long-term needs of the economy or the immediate needs of a region can be ignored only at peril. Besides, the inter-relation between the various sectors has to be kept in mind as far as possible ; excessive growth in certain particular directions will put a strain on the other sectors. But, despite these caveats, some selective encouragement to quick-yielding projects would seem unexceptionable as well as necessary.

3.9 Another problem to be faced is the policy as regards *fait accompli* imports and premature imports. A list should be drawn up of such imports in order to examine whether those among them which would come for utilization under categories (b) and (c) cannot be better utilized for projects which come under (a). Where technological and institutional rigidities

do not permit of such transfers, some accommodation may have to be made for projects of a lesser order of importance. In certain instances, even the possibility of re-exports may be considered which would actually help in recovering foreign exchange previously spent. In the case of premature imports, it is necessary that an administrative and distributive machinery is set up to watch that there is no dissipation in non-essential projects. One special consideration will be the user cost of implements and plant imported earlier than originally envisaged. If this burden is found to be heavy, a certain adjustment in the phasing of the projects will have to be contemplated. That is to say, a number of projects which, in the normal circumstances, would have been taken up only in the later years of the Plan, but for which the necessary machinery have already been imported, should be brought forward and put into operation immediately.

3.10 Special consideration should also be given to projects for which the blueprints are complete and the foreign exchange component of which is a small part of the total cost. Such projects should be allowed the required allocation of foreign exchange.[1] Projects for which most of the other factors are available including, in particular, technical personnel and administrative organization, should similarly be treated sympathetically.

3.11 In a few cases a reduction in the level of costs, or a switch-over from a more to a less capital-intensive mode of production will depend upon the Government's control over strategic resources, and over such factors as the structure of wages, prices, interest rates, etc. If the situation develops in such a way that the Government has to assume some of these functions, the administrative structure must already be geared up accordingly. Considerable anticipatory planning will hence be called for.

3.12 To sum up, the following priority assignments for the Planning Commission are suggested by the preceding analysis:

(a) The Planning Commission must undertake to work out and publish within a short time the foreign exchange components of the projects included in the original allocations of the Plan. At the same time, responsible agencies representing the private sector should be invited to prepare parallel estimates of the foreign exchange requirements of projects earmarked for implementation by private enterprise.

[1] Judged by this criterion, the heavy electrical plant project in the public sector, for example, should be put through, since its foreign exchange cost is reported to be only about Rs. 15 crores.

(b) In the second place, the foreign trade data of the past sixteen months should be scrutinised to isolate the different elements such as imports of capital goods, of consumer goods and of intermediate goods, and also to distinguish imports intended for utilization for projects under the Plan from imports for projects outside the Plan.

(c) The next step would be to examine whether some realignment of the imports already made cannot be undertaken. A unit in the Planning Commission, in collaboration with the private sector, may go into such questions as whether some of the imports of machinery intended for expanding the capacity of consumer goods output could not be switched over to some projects included in the Plan, whether some machinery imported for projects which belong to a lesser order of priorities could not be utilized for projects which have a higher significance from the point of view of attaining the basic objectives of the Plan, whether some imported intermediate goods could not be diverted from light to heavy industry projects, etc. Admittedly, there are definite limits to such re-allocation of imports, and the element of cost involved cannot also be overlooked. But an attempt would still appear as worth while.

(d) Finally, it is also essential that the Planning Commission undertakes a thorough review of the programmes in the various sectors and assesses their significance from the point of view of their relative contribution to the major Plan objectives to raise the levels of national income and of employment.

4. *An Alternative Plan Outlay*

4.1 *In the absence of adequate information about the categories mentioned* in Section 3, any attempt, from outside the Planning Commission, to suggest an alternative size and phasing of the Plan can perhaps have only notional significance. *Still, one such effort is described in the subsequent* paragraphs. The line of approach developed here is along the following sequence:

(a) The availability of foreign exchange for the remaining period of the Plan,

(b) distribution of this availability between the public and private sectors,

(c) the extent of modification in the size of the Plan necessitated by the size of available foreign exchange, and

(d) sectoral re-allocation of Plan outlay called for by the overall revision.

4.2 A passing reference may be made to the fact that subsequent additions and alterations have already somewhat altered the contours of the original Plan outlay, which was of the following pattern in the public sector.

TABLE IX

SECOND FIVE YEAR PLAN : PUBLIC SECTOR OUTLAY

(Rs. Crores)

	Investment Outlay	*Current Outlay*	*Total Outlay*
1. Agriculture and community development	338	230	568
2. Irrigation and power	863	50	913
3. Industry and mining	790	100	890
4. Transport and communications	1,335	50	1,385
5. Social services	455	490	945
6. Miscellaneous	19	80	99
TOTAL	3,800	1,000	4,800

Source: *Second Five Year Plan.*

The level of investment at the same time in the private sector was put at Rs. 2,400 crores, broken down in the manner as set in Table X.

TABLE X

PRIVATE INVESTMENT UNDER SECOND FIVE YEAR PLAN

(Rs. Crores)

1. Organized industry and mining	575
2. Plantations, electricity undertakings, and transport other than railways	125
3. Construction	1,000
4. Agriculture and village and small scale industries	300
5. Stock	400
TOTAL	2,400

Source: *Second Five Year Plan.*

Factors such as additional expenditure on account of the steel townships, larger outlay in agriculture, increased freight rates, etc., have been adduced as reasons for raising the size of the outlay in the public sector by another Rs. 600 crores to Rs. 5,400 crores. But the breakdown of this higher outlay has not been made public.

4.3 No idea regarding the annual phasing of the original outlay has been made available. Besides, despite Professor Mahalanobis' draft plan-frame and notwithstanding the observations in Section 3, one would suspect that, in the ultimate compromise that the Plan embodies, any organic inter-relation between different targets and outlays could scarcely be adhered to. It would thus follow that any rough and ready suggestion regarding the revision of the Plan need not be very much more 'unscientific' than the original proposals. The particular imbalances or pressures that might consequently develop may, therefore, be evened out by market forces in the course of the normal working of a largely free-enterprise economy.[1]

4.4 It will be assumed here that, given the grave ways and means position the country finds itself in, the total value of merchandise imports for the remaining period[2] of the Plan will have to be met from out of the proceeds of merchandise exports. This severe assumption is necessary if the country's external viability is to be restored and sustained. Thus, for book-keeping purposes, net account on invisibles and the capital account will be shown as going entirely for building up reserves.[3]

It will be further supposed that average annual exports during the period 1957-61 will attain the level of around Rs. 675 crores. This is a little higher than the figure of exports for 1956-57, but with a little enterprise and effort, this target should not be difficult to reach. On this assumption, the aggregate value of imports for the remaining four years of the Plan must be kept within Rs. 2,700 crores. Since imports during 1956-57 were of the order of Rs. 1,100 crores, aggregate imports over the Plan period will be Rs. 3,800 crores.

4.5 A pattern of allocation of imports amounting to Rs. 2,700 crores

[1] As will be generally recognized, the sufficiency of food supply and its efficient distribution will constitute the crux of the problem; if these can be assured, the other imbalances can perhaps be smoothened out.

[2] It may be argued that this is a too rigid hypothesis, and that such a policy should be tried for a period of, say, only two years initially. But there are advantages in working out the notional exercise on a minimal base.

[3] In reality, of course, some imports will be financed by transactions on the capital account, for example, food imports from the United States under P.L. 480.

for the period 1957-61 is suggested in Table XI. It is also compared with the pattern mooted in the original Plan proposals and the one that emerged in 1956-57. The figures in brackets represent approximate percentage of total value of imports.

TABLE XI

INDIA'S IMPORTS OF PRINCIPAL COMMODITIES

(Rs. Crores)

	1956-57	1957-61	1956-61	
	Actual 1	*Proposed* 2	*Present Proposal* 3=1+2	*Plan Proposal* 4
1. Machinery, vehicles, iron and steel, and other metals	442 (45)	1,620 (60)	2,060 (55)	2,150 (50)
2. Foodgrains	102 (10)	365 (13)	470 (12)	240 (6)
3. Sugar, oils, dyes, and chemicals, cutlery and hardware, electrical goods, raw materials, etc.	267 (25)	480 (18)	750 (20)	1,250 (28)
4. Others	266 (25)	235 (9)	500 (13)	700 (16)
TOTAL	1,080	2,700	3,780	4,340

Roughly 60 per cent of the total, or Rs. 1,620 crores, are here suggested for import of machinery, metals and vehicles during 1956-57. The allocations for the other categories can be seen from the table. Considered together with the actual imports realized in 1956-57, the total value of imports for the total five-year period, according to the present proposal, will be about Rs. 500 crores less than that in the Plan outline. Thus, imports of machinery, vehicles and metals will be nearly Rs. 100 crores less; food imports will be almost double the figure taken in the original Plan outlay; while imports of other consumer goods and materials will have to be drastically cut by about Rs. 700 crores. As percentage of total, the allocation of machinery and metals goes up from 50 to 55; food imports move up from 6 to 12; for the other categories the percentage is reduced from 44 to 33.

4.6 The increased imports of foodgrains will be partly on account of our commitments under the agreement signed with the U.S. Government, but largely because of the uncertain food situation in the country. Thus inevitably the axe has to fall heavily on the import of consumer goods and materials. The order of reduction in imports proposed for these categories is approximately one-third of the absolute magnitude. Can the economy bear the strain of such a curtailment in the supply of consumer and intermediate goods? It may be that premature imports in some varieties of capital goods and materials will accelerate the process of capacity expansion in a number of consumer goods industries, and will, therefore, help to partly compensate for the lack of imports in the subsequent years of the Plan. For the rest, the community will have to apportion out the scarcity in as equitable a manner as possible, with some control and guidance being exercised by the State.

4.7 Since the size and pattern of the Plan as it actually takes shape will be largely influenced by the overall availability of capital goods, the figure of imports of machinery, vehicles and iron and steel assumes a crucial significance. In the original Plan outline, this figure was in the region of Rs. 2,150 crores. With subsequent upward revisions, the import requirements of these goods would also have been pushed up to the neighbourhood of Rs. 2,500 crores. It can be argued that an additional import volume worth Rs. 300 crores should be added to this figure to accommodate the auxiliary and supplementary investment called for by the Plan outlays in the public and private sectors, and for which adequate allowance was not made in the original estimates.

4.8 Instead of Rs. 2,800 crores, the imports of machinery, metals and vehicles during the Plan period will have to be scaled down to Rs. 2,060 crores. On the basis of the Planning Commission's implicit assumption that the imports would be distributed between the public and private sectors in the ratio of 7:3, the availability of imports for the implementation of the public sector programmes will consequently be reduced from Rs. 1,960 crores to Rs. 1,440 crores; the corresponding reduction in the private sector will be from Rs. 840 crores to Rs. 620 crores.

4.9 Indications are not available from Planning Commission sources about the allocation of the overall supply of machinery and vehicles on the one hand, and iron and steel and other metals on the other, as between the different fields of the public sector Plan.[1] Table XII attempts such a

[1] In the original proposals, a tentative breakdown of the imports of machinery and vehicles was given, but no estimate was made regarding the allocation of iron and steel and other metals.

breakdown for the total supply of Rs. 1,960 crores, which is unlikely to be very different from the Planning Commission's line of thinking, and also suggests how a reduction of this category of imports to the level of Rs. 1,440 crores can be distributed over the various sectors. (In computing the table, it has been assumed that a major part of the import of iron and steel and other metals is to be absorbed in the industry and mining sector.)

TABLE XII

MACHINERY AND METAL IMPORTS OF THE PUBLIC SECTOR

(Rs. Crores)

	Estimated Current Allocation	*Proposed Allocation*	*Percentage Reduction*
1. Transport and communications	650	515	20.8
2. Industry and mining	750	575	23.3
3. Irrigation and power	220	160	27.3
4. Other government sectors	340	190	44.4
TOTAL	1,960	1,440	26.5

4.10 Similarly in the private sector, the implication of the curtailment of machinery and metal imports will be of the following order for the different fields of activity.

TABLE XIII

MACHINERY AND METAL IMPORTS OF THE PRIVATE SECTOR

(Rs. Crores)

	Current Estimate	*Proposed Estimate*	*Percentage Reduction*
1. Organized industry and mining	350	260	25.7
2. Plantations, electricity undertakings and transport	80	60	25.0
3. Construction	350	260	25.7
4. Agriculture and small industries	60	40	33.3
TOTAL	840	620	26.2

4.11 How will these reductions in strategic imports affect the aggregate size of the Plan in the different sectors ? It is at this point that analysis would have been greatly facilitated by detailed knowledge of the import quotas of individual projects. The classification of projects referred to in Section 3 would also similarly be of much practical significance.

These basic data are yet lacking. However, a number of observations, of varying degrees of generality, can still be made about the manner in which these import restrictions will impinge on the carrying out of the Plan projects.[1]

4.12 It is normally assumed that projects under Transport and Communications in the public sector will be of the category (a) referred to above, namely, will have invariant finance and foreign exchange requirements. If this be really the case, the total size of the public outlay under this head will be curtailed by the same proportion as the reduction in strategic imports, that is, by 20 per cent. In practice, on the other hand, it ought to be possible in this field to make up for the lesser volume of strategic imports partly through stepping up internal substitution—as in the case of rolling stock—and partly through alteration in construction and layout designs. In the Railway plan,[2] for example, nearly Rs. 200 crores is earmarked for electrification, new construction and building of staff quarters. Some segments of these programmes can be pruned, and, for the rest, alternative designs may be used which would impinge less on foreign exchange. Similar savings can be effected in the expansion of line capacity works, in the laying out of workshops, plant and machinery, in road development schemes, civil aviation works, and in the fields of communication and broadcasting. The cut in imports of steel and other strategic materials amounting to Rs. 135 crores can, for instance, be distributed in the following manner as between the several groups of schemes under Transport and Communications :

	Rs. Crores
1. Railways	90
2. Road development	20
3. Shipping	6
4. Ports	12
5. Civil aviation	1
6. Posts and telegraphs	5
7. Other communications	0.5
8. Broadcasting	0.5
TOTAL	135

[1] It will be seen that the approach here is significantly different from that in recent official pronouncements, which emphasise the desirability of retaining the outlays on railways, steel plants, power schemes and ports but do not proceed beyond the blanket formula.

[2] Although a recent statement (October 7) by the Minister for Railways places the revised cost of the Railway plan at Rs. 300 crores above the original outlay, the foreign exchange component is still estimated to be around Rs. 400 crores.

If appropriate substitution in designs can be effectively put through, the reduction in the size of the public outlay in the field of Transport and Communications need not exceed 10 per cent of the original outlay.

4.13 In the case of public outlay in Industries and Mining too, the curtailment of imports—of the order of almost 23 per cent—may not make corresponding inroads in the overall size of the outlay. The programmes for village and small-scale industries, making up about one-fifth of the total figure of public outlay in Industries and Mining, will be almost unaffected by the import cut. Some of the foundries and forge shops will have to be postponed. The expansion programmes of a number of Government industrial enterprises will need to be staggered afresh. The proposed expenditure on expanding consumer goods production in the public sector will have to be dropped. The programme for raising the output of industrial machinery and capital goods will also have to be rephased. More than anything else, rigorous examination will be called for of the outlay on construction in all Government industrial projects : it is here that a substantial saving in steel and other imported materials is possible of realization. The 'hard core' of the industrial programme in the public sector—consisting of the three steel plants—will, however, be retained.[1] These can perhaps still be put through, even if the process of execution gets a little bit slackened. Many of the 'frills' beyond these[2]—to the extent of perhaps 15 per cent of the total size of the public outlay in Industry and Mining—will have to be held in abeyance.

4.14 A cut of Rs. 60 crores is suggested here in the import of machinery, steel and other strategic materials for the Irrigation and Power schemes in the public sector. This cut, if properly distributed, need not severely affect the targets of creating irrigational facilities for an additional 21 million acres and additional installed capacity of 3.5 million kw. A shift in construction design in the case of the big irrigation and power projects—marked by progressive labour substitution—should ease the strain on imported steel and machinery. A saving of between Rs. 20 and 30 crores in foreign exchange ought not be considered beyond the realm of feasibility here, provided detailed scrutinies are made well in advance. In the case of minor irrigation projects which do not involve any generation of power, it may also be possible to choose humbler modes of irrigation which do not

[1] The mere fact that some foreign exchange availability is tied in with these projects [illegible] the case for their implementation.

[2] The [illegible] investments must in any case be provided for. [illegible] completion of coal washeries will be a waste, and every care needs to be [illegible] such developments.

involve substantial outlay on machinery. Through thus reducing the number of new projects and proportionately increasing the emphasis on minor irrigation works, economy of another Rs. 10 crores of machinery and steel may be achieved. A number of electrification schemes, which are unlikely to be implemented during the current Plan period because of operational lags, can be taken off the list without delay, ensuring a further relief to the import burden.

A special point may be inserted here for consideration. There is little virtue in reaching the target of additional irrigational facilities if utilization persists to lag far behind. The pace of utilization during the First Plan has been inordinately slow, and, in the absence of the likelihood of any immediate reversal of the trend, failure, on account of the exchange crisis, to reach the Second Plan target will not be of much serious consequence. Also, curtailment in the domestic consumption of power—as well as use for conspicuous purposes—need not be upsetting to the broad objectives of the Plan.

4.15 Finally, utilization of metals and machinery is here proposed to be reduced by Rs. 150 crores for the other Government sectors. This will impinge on the Government's Plan programmes for Social Services, including Education and Housing, as well as on the level of current expenditure. It is likely that this cut will be more or less evenly distributed between the Plan outlay on Social Services and non-Plan current outlays. The shrinkage in Government's current expenditure will be necessary as well as essential, and will be in line with the reduction in the availability of imported goods for the general mass of consumers. Some hesitancy may be felt about the cut in imports proposed for Social Service programmes. But for these programmes foreign exchange does not have the same strategic significance as in other fields. Social Welfare is in the nature of a 'bargain' sector, and activities can be carried on even with a drastic reduction in the supply of steel and equipments originally envisaged. Since housing and other forms of construction constitute a big part of the outlay under this head, possibilities exist at all levels of realising substantial savings through experimenting with labour-intensive housing schemes which involve a lesser drain on foreign exchange. In the field of education too, school-building programmes can be suitably adjusted and re-distributed in all areas and a more intensive use of existing school buildings, for example, through shifts, may be feasible. It can be made into a general plea that in the programmes of construction, costly styles of architecture, which call for extensive imports of materials and machinery, should be prohibited. Such reductions in the outlay on construction activities will not impair the employment-giving potential of

these projects, for the lowering of costs will be largely on account of substitution of imported materials by indigenous materials, the scale of operations remaining more or less unaffected.

4.16 In the private sector outlay, the bulk of the effect of the cut in strategic imports will be felt in the fields of organized industry and construction. The several projects for either starting or expanding the production of consumer goods—with a total estimated investment figure of almost Rs. 200 crores—will have to be held over for more propitious times or abridged. For the other projects also, the foreign exchange budget should be rephased, and the burden falling in the current Plan period be substantially lowered. In the field of construction, a moratorium is called for on all amenity and entertainment buildings, and, for the rest, emphasis ought to be laid on new constructional designs involving a lesser proportion of imported materials.

4.17 To sum up, the following new pattern of public sector outlay for the Plan can be suggested given the ceiling of Rs. 1,440 crores as import quota of strategic goods.

TABLE XIV

SECOND PLAN PUBLIC SECTOR OUTLAY: AN ALTERNATIVE BREAKDOWN

	Rs. Crores	*Percentage Reduction Compared to Original Outlay*
1. Agriculture & community development	520	9.2
2. Irrigation and power	750	16.7
3. Organized industries & mining	750	+8.7
4. Small and cottage industries	200	0
5. Transport and communications	1,200	13.3
6. Social services	760	19.5
7. Miscellaneous	50	49.5
TOTAL	4,230	11.9

This is almost Rs. 600 crores less than the total public outlay proposed in the original outline, and nearly Rs. 1,200-1,300 crores less than the size of what is known to be the latest version of the Plan. Since the breakdowns of the latter are not available, Table XIV compaies the suggested sectoral outlays with the corresponding figures in the original Plan.

Regarding the private sector, no specific alternative formulation of total

investment need be offered here. Given the aggregate quantum of imports of strategic goods amounting to Rs. 620 crores allowed for it, private investment will find the appropriate levels in the different sectors. In case public sector Plan is implemented continuously without major hitches, it can be expected that private enterprise will take proper cue from the resultant buoyancy in the economy. However, if the Planning Commission feels anxious that private investment should preferably assume certain desirable forms over the period, an allocation pattern may then be indicated for this total volume of imports of strategic machinery and metals. Beyond that, it can only be hoped that the capacity built up in recent years and the talent of improvisation noticeable in widely scattered private fields will ensure that private investment gathers a momentum commensurate with the progress in the public sector.

4.18 Will reduction in the Plan outlay of these orders seriously impair the major targets of increase in national income and employment ? The preliminary impression is that, provided effective implementation of the programmes can be guaranteed, only marginal adjustments will be called for in these targets.[1] It will be seen that in the major 'bargain' sectors, such as Agriculture, Community Development, and Small-scale and Cottage Industries, very little alteration has been made from the original allocations, so that their employment-creating potential will remain unaffected. Even in the field of Social Services, the reduction is mostly on account of cutting out foreign supply of machinery and materials. With a little flexibility and re-designing, the overwhelming majority of the construction works under this head could possibly be carried out. Similarly, under the Irrigation and Power programmes, the summary abandonment of projects and consequent lowering of the employment-potential is expected to take place only at the fringe, which ought to be compensated by the stress now being suggested on labour-intensive modes of construction for the other projects. It is only in the case of organized consumer industries that the expansion in employment may be somewhat less than originally expected, but in any case the contribution of this sector to both national income growth and employment is circumscribed in the short period.

4.19 In conclusion, it may merely be pointed out that the rigorous exercise in this Section is for illustrative purposes. In case the prospects for external resources show signs of improvement in the course of next year or so, the minimal programme set out here can be relaxed. That would

[1] However, as is now being tacitly admitted, the original outlays themselves may be incapable of attaining the physical targets initially set.

also signal the release from the regime of strict rigidity and control wit[h]
which the frame described in the above paragraphs is unlikely to succ[eed]
operationally.

August 1957